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April 8, 1998

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Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street N.W.
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**RE: Ex Parte Notice
CC Docket 97-211 (Applications of WorldCom and MCI for Transfer of Control)**

Dear Ms. Salas:

On April 7, 1998, George Kohl, Debbie Goldman, and Sumanta Ray of the Communications Workers of America (CWA) Research Department met with Commission staff members from the Common Carrier Bureau and the Office of the General Counsel's Competition Division, listed below, to discuss CWA's concerns regarding the impact of WorldCom's and MCI's proposed merger on competition in the local exchange.

Our discussion focused on issues raised in CWA's pleadings, including: the legal standard for evaluating the merger; market definition; evidence from WorldCom's and MCI's financial statements that indicate that the merged entity will not compete in the residential and small business local exchange market; and evidence from WorldCom's and MCI's FCC and state filings that demonstrate that the joint Applicants fail to provide concrete evidence that the merged entity plans to compete in the residential and small business local exchange market.

The attached were used in our discussion. They include a 28-page handout that details the basis for CWA's evidence, including financial analysis of the merged entity; the affidavit of David Shapiro previously filed in this proceeding as an attachment to CWA's March 20, 1998 Reply Comments; and three pages each from WorldCom/MCI's non-proprietary information provided in response to data requests in merger review proceedings in Montana and in Pennsylvania.

In accordance with Commission rules, an original and one copy of this notice as well as all material provided to the Commission staff are being submitted to the Secretary.

Sincerely,

A handwritten signature in cursive script, reading 'Debbie Goldman', is written over the typed name.

Debbie Goldman
Research Economist

cc: Michelle Carey, Jennifer Fabian, Susan Launer, Michael Pryor, Matt Nagler

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**The Merger of WorldCom and MCI
Will Not Enhance
Competition in the Local Exchange**

Ex Parte Presentation by CWA

**In the Matter of
Applications of WorldCom and MCI
CC Docket No. 97-211
April 6, 1998**

Overview of Presentation

- **Legal standard:** burden of proof on applicants
- **Market definition:** residential and small business market in local exchange
- **Evidence from financial statements:** merged entity does not plan to compete for low-margin residential & small business market
- **WorldCom/MCI statements to Wall Street:** confirms evidence from financial statements
- **WorldCom/MCI failure to provide concrete evidence** of plans to compete in residential and small business market

Legal Standard

- . "Applicants bear the burden of demonstrating that the transaction is in the public interest. (BA/NY 29)
- . "Under the public interest standard, the burden of proof is on the applicant not the Commission." (BA/NY 32)
- . "In order to find that a merger is in the public interest, we must, for example, be convinced that it will enhance competition." (BA/NY 2)

Legal Standard

- . A merger is pro-competitive only if the "harms to competition--i.e. enhancing market power...are outweighed by benefits that enhance competition...If applicants cannot carry this burden, the applications must be denied." (BA/NY 2)
- . "It is incumbent upon applicants to prove that, on balance, the merger will enhance and promote, rather than eliminate or retard, competition." (BA/NY 3)
- . "In our rapidly evolving telecommunications marketplace, they (Applicants) must demonstrate not only the efficiency benefits of the merger, but how the merger would enhance or not retard competition. Failure to carry the burden of proof means the Commission must deny the applications or designate them for hearing." (BA/NY 36)

Market Definition

- **Product market:** local exchange and exchange access service (BA/NY 51)
- **Customer groups:** residential and small business (BA/NY 53)
- "...the greatest competitive concerns arise with respect to service to residential and small business customers" (BA/NY 53)

WorldCom/MCI Claims

- "The merger will create a more forceful local competitor by combining two companies with complementary advantages" (v)
- Efficiencies will enhance the merged entity's ability to raise capital and will give it greater financial strength to accelerate expansion of local service and networks (18)
- "The premium price (that WorldCom is paying for MCI) reflects both the opportunity for significant savings and the recognition that the merged company will be a more formidable competitor in efforts to break the local exchange monopolies." (97)

The Financial Evidence Disputes These Claims

- **MCI cancels \$2 billion local loop investment** after merger plans announced.
- **\$5.3 billion in local cost savings** can only be realized by change in business strategy, not just efficiencies.
- **Premium price** reflects Wall Street's high expectations of growth which can only be achieved through a strategic focus on the high-margin, high-growth segments of the industry.
- **Merger does not create a financially stronger company.**
 - No increase in productivity of tangible assets
 - Higher debt burden, higher cost to borrow capital

Exhibit 99.3: \$5.3 Billion in Reduced Local Savings

- Nov. 9, 1997 SEC Form 8-K, Exhibit 99.3 (Analysts' Presentation Given on Nov. 10, 1997) This exhibit was never filed with FCC or state PUCs.
- Jan. 22, 1998 SEC Amendment No. 3 to Form S-4. This was filed with FCC and state PUCs and does not split out "local" synergy savings.
- WorldCom and MCI want to hide the fact that they plan to reduce local expenditures by \$5.3 billion over four years.
 - Operating Costs: \$3.3 billion
 - Capital Expenditures: \$2.0 billion

Never filed with FCC by WorldCom/MCI
Amended SEC filing on Jan. 22, 1998 - See Amendment No 3 to S-4

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 9, 1997

WORLD COM, INC.
(Exact Name of Registrant as Specified in its Charter)

Georgia	0-11258	58-1521612
(State or Other	(Commission File	(IRS Employer
Jurisdiction of	Number)	Identification Number)
Incorporation)		

515 East Amite Street
Jackson, Mississippi 39201-2702
(Address of Principal Executive Office)

Registrant's telephone number, including area code: (601) 360-8600

Exhibit No. 99.3

Analysts' Presentation Given on November 10, 1997

Operating Cost Savings

<TABLE>
<CAPTION>

Anticipated Annual Savings
(\$ in billions)

	1999		2002	
	Previous	Revised	Previous	Revised
<S>	<C>	<C>	<C>	<C>
Core SG&A	\$1.0	\$1.0	\$1.3	\$1.3
MCI Local Savings	\$0.7	\$0.5	\$1.5	\$1.2
Domestic Line Costs	\$0.6	\$0.6	\$1.3	\$1.8
International Line Costs	\$0.1	\$0.4	\$0.3	\$1.3
Total	\$2.4	\$2.5	\$4.4	\$5.6

</TABLE>

Presentation contains forward-looking statements.
Actual results may vary.

PAGE> 26
Financial Highlights

Capital Expenditure Savings

TABLE>
CAPTION>

Anticipated Annual Savings
(\$ in billions)

	1999		2002	
	Previous	Revised	Previous	Revised
S>	<C>	<C>	<C>	<C>
.D./Int'l/Internet	\$0.8	\$0.9	\$1.2	\$1.3
ocal	\$0.7	\$0.7	\$0.3	\$0.3
r	--	\$0.4	--	\$0.4
Total	\$1.5	\$2.0	\$1.5	\$2.0

TABLE>

MCI-WorldCom
Jan. 26, 1998 Reply Comments

ATTACHMENT G

As filed with the Securities and Exchange Commission on January 22, 1998

Registration No. 333-36901

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

MARKED COPY

to

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

WorldCom, Inc.

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of
incorporation or organization)

4813

(Primary Standard Industrial
Classification Code Number)

58-1521612

(I.R.S. Employer
Identification Number)

**515 East Amite Street
Jackson, Mississippi 39201-2702
(601) 360-8600**

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

**Bernard J. Ebbers
President and Chief Executive Officer
WorldCom, Inc.
515 East Amite Street
Jackson, Mississippi 39201-2702
(601) 360-8600**

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies To:

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after this Registration Statement is declared effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Revised Synergy Estimates

	Fiscal Year Ended December 31,			
	1999	2000	2001	2002
	(Dollars in Billions)			
Network synergies and avoided local losses	\$1.6	\$2.6	\$3.5	\$4.4
Core SG&A	0.9	1.0	1.1	1.2
Total pre-tax cash operating synergies	\$2.5	\$3.6	\$4.6	\$5.6
As a % of combined revenues	6%	8%	8%	8%
As a % of combined operating expenses	8%	10%	11%	12%
Capital expenditure savings	\$2.0	\$2.0	\$2.0	\$2.0
As a % of combined revenues	5%	4%	4%	3%
As a % of combined capital expenditures	26%	26%	24%	23%

The Previous Synergy Estimates were developed by WorldCom prior to October 1, 1997 based on publicly available information, WorldCom's general knowledge of the telecommunications industry and WorldCom's experience in prior merger and acquisition transactions. The Revised Synergy Estimates were developed subsequently by WorldCom following an exchange of information between MCI and WorldCom and discussions between the companies' respective management teams. As a result of the information obtained by WorldCom and the discussions with the MCI management team, the Revised Synergy Estimates include certain new categories of potential savings, such as cost savings relating to the elimination of duplicated information technology costs. In addition, categories of savings included in the Previous Synergy Estimates were revised by WorldCom in light of improved knowledge about MCI's business and prospects.

The Previous Synergy Estimates and the Revised Synergy Estimates are net of the expenses WorldCom believes will be incurred to achieve the estimated costs synergies.

Network Synergies and Avoided Local Losses. In both the Previous Synergy Estimates and the Revised Synergy Estimates, network synergies and avoided local losses were anticipated to be realized in three areas: reduced domestic network costs, reduced cost of terminating international traffic and avoided costs in MCI's local activities.

Reduced domestic network costs. As a result of WorldCom's existing extensive local network, the combined company will carry an increased proportion of its domestic traffic on its own local network facilities resulting in a reduction in leased line costs and access costs associated with switched traffic. By combining WorldCom's and MCI's traffic, a reduction in variable network costs such as In-WATS, Out-WATS and directory services are expected as a result of the combined company's greater purchasing power. Assumptions used by WorldCom to estimate the magnitude of potential cost savings in this area included: (i) the magnitude of MCI's and WorldCom's projected costs for terminating traffic domestically; (ii) the mix of these costs between different categories such as access, direct access lines and leased lines, Out-WATS and In-WATS, and entrance facilities; and (iii) the proportion of the projected costs that net of implementation costs could be eliminated as a result of combining MCI's and WorldCom's activities.

Reduced cost of terminating international traffic. MCI currently has more extensive settlement agreements for international traffic than does WorldCom. The combined company will benefit from these settlement agreements. In addition, as a result of construction of transatlantic facilities and network facilities in Europe, the combined company will be able to lower MCI's average costs of terminating certain traffic in Europe. Assumptions used by WorldCom to estimate the magnitude of potential costs savings in this area included: (i) the magnitude of MCI's and WorldCom's projected costs for terminating traffic overseas on a country-by-country basis; (ii) the magnitude of MCI's and WorldCom's projected international traffic on a country-by-country basis; and (iii) the proportion of MCI's international traffic that could be carried on WorldCom's facilities in Europe.

Avoided costs in MCI's local activities. As a result of WorldCom's existing extensive local network and operations, the combined company will be able to execute MCI's plans to expand in the local

WorldCom is Paying a \$28.6 Billion Premium Price for MCI

World Com pays for MCI*	\$39.9 billion
MCI book value	- <u>\$11.3 billion</u>
Difference ("Premium")	\$28.6 billion

* Based on WorldCom stock price of \$33.13 per share as of Nov. 7, 1997.

The premium price has actually increased since then because the price of WorldCom stock has increased above the high end of the "collar" set in the merger agreement of \$41 per share.

Premium Price = Goodwill

- Textbook definition: Goodwill is an intangible asset that represents future earnings greater than the average in the industry. (Larson & Chiapetta, *Fundamental Accounting Principles*)
- Expectation of higher than average earnings and fast growth
- "Prepayment" of future profits

Goodwill & Intangibles Dominate the New WorldCom/MCI

	G&I as % of Total Assets	Tangible Assets as % of Total Assets	G&I as % of Sharehldr Equity
MCI	9.6%	90.4%	20.9%
Major Telecom Co. Avg	11.1%	88.9%	32.1%
WorldCom	62.5%	37.5%	97.3%
New Worldcom/MCI	61.6%	38.4%	99.6%

Source: Shapiro Affidavit, CWA March 20, 1998 Reply Comments based on Company SEC filings (9/30/97)

Conclusions

- WorldCom is different than other telecom companies
- New WorldCom/MCI looks like WorldCom
- Investor expectations of higher than average earnings, profits, and growth rate
- Requires new WorldCom/MCI to focus on high-margin business, not low-margin residential and small business market

Further Evidence of High-Growth Expectations: P/E Ratio Far Above Industry Average

	Price/Earnings Ratio
AT&T	21
BS,AMT,USW	22
Sprint	31
Bell Atlantic	32
MCI	47
SBC	55
WorldCom	96

Source: David Shapiro Affidavit, CWA March 20, 1998 Reply Comments

New WorldCom/MCI is Financially Weaker

- Income generating capacity of the assets does not improve -- lower asset productivity.
- Less ability to fund capital expenditures from internal resources -- less working capital and liquidity.
- Higher debt burden and increased cost of capital -- lower interest coverage ratios.

WORLDCOM PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of September 30, 1997

(In millions)

	(A)	(B)	(C)	(D)	(E)	(F)
	<u>MCI Historical</u>	<u>WorldCom Historical</u>	<u>Pro Forma Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined</u>	<u>Revised Synergy Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined w/Revised Synergies</u>
Current Assets	\$ 4,603	\$ 1,625		\$ 6,228	\$ -	\$ 6,228
Plant, Property and Equipment (PP&E)	\$ 13,783	\$ 5,419	\$ (2,700)	\$ 16,502	\$ -	\$ 16,502
Goodwill and other intangibles, net	\$ 2,366	\$ 13,002	\$ 28,621	\$ 43,989	\$ -	\$ 43,989
Other assets	\$ 3,965	\$ 767				
Total Assets	\$ 24,717	\$ 20,813	\$ 25,921	\$ 71,451	\$ -	\$ 71,451
Current Liabilities	\$ 7,327	\$ 1,870		\$ 9,197	\$ -	\$ 9,197
Long Term Debt	\$ 3,282	\$ 5,349	\$ 7,446	\$ 16,077	\$ -	\$ 16,077
Shareholders' Equity	\$ 11,321	\$ 13,366	\$ 19,490	\$ 44,177	\$ -	\$ 44,177

Source: Columns (A) to (D), Amendment No. 3 to S-4, January 22, 1998

Columns (E) and (F), Adjustments made by CWA based on Estimated Revised Synergies

WORLDCOM PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 1997

(In millions)

	(A)	(B)	(C)	(D)	(E)	(F)
	<u>MCI Historical</u>	<u>WorldCom Historical</u>	<u>Pro Forma Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined</u>	<u>Revised Synergy Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined w/Revised Synergies</u>
Revenue	\$ 14,545	\$ 5,349	\$ (280)	\$ 19,614	\$ -	\$ 19,614
Operating expenses:						
Line Costs	\$ 8,090	\$ 2,806	\$ (280)	\$ 10,616	\$ (1,125)	\$ 9,491
Selling, general and administration	\$ 4,028	\$ 1,141	\$ -	\$ 5,169	\$ (750)	\$ 4,419
Depreciation & Amortization	\$ 1,475	\$ 682	\$ 537	\$ 2,281	\$ -	\$ 2,281
"Write Down" Expense			\$ (413)			
Operating Income	\$ 952	\$ 720	\$ (124)	\$ 1,548	\$ 1,875	\$ 3,423
Other Expenses						
Income Tax Provision	\$ 246	\$ 261	\$ 19	\$ 526	\$ 975	\$ 1,501
Interest Expense	\$ 174	\$ 235	\$ 363	\$ 772	\$ -	\$ 772
Other	\$ 139	\$ 3	\$ -	\$ 142	\$ -	\$ 142
Net Income	\$ 393	\$ 221	\$ (506)	\$ 108	\$ 900	\$ 1,008
EBIT	\$ 813	\$ 717	\$ (124)	\$ 1,406	\$ 1,875	\$ 3,281
EBITDA	\$ 2,288	\$ 1,399	\$ 413	\$ 3,687	\$ 1,875	\$ 5,562

Source: Columns (A) to (D), Amendment No. 3 to S-4, January 22, 1998

Columns (E) and (F), Adjustments made by CWA based on Estimated Revised Synergies

Key Measures	MCI <u>Historical</u>	WorldCom <u>Historical</u>	MCI-WorldCom Pro Forma <u>Combined</u>	MCI-WorldCom Pro Forma Combined <u>w/Revised Synergies</u>
Income Generating Capacity of Assets (Asset Productivity)				
Total Revenue/Total Assets	0.588	0.257	0.275	-
Operating Income/Total Assets	0.039	0.035	0.022	-
Net Income/Total Assets	0.016	0.011	0.002	-
EBITDA/Total Assets	0.093	0.067	0.052	-
Net Income/PP&E	0.029	0.041	0.007	-
Working Capital & Liquidity				
Working Capital	-\$2,724	-\$245	-\$2,969	-
PP&E/Total Assets	0.558	0.260	0.231	-
Current Assets/Total Assets	0.186	0.078	0.087	-
Leverage and Interest Coverage				
Operating Income/Interest	5.471	3.064	2.005	-
Net Income/Interest	2.259	0.940	0.140	-
EBITDA/Interest Expense	13.149	5.953	4.776	-
Fixed Charge Coverage (EBIT/Interest)	4.672	3.051	1.821	-
EBITDA/Debt	0.697	0.262	0.229	-
Debt to Equity	0.290	0.400	0.364	-
Debt to Tangible Assets	0.147	0.685	0.585	-
Profitability and Income Margins				
Operating Income Margin	0.065	0.135	0.079	+
EBITDA Margin	0.157	0.262	0.188	+
Net Income Margin	0.027	0.041	0.006	-

What WorldCom/MCI is Telling Wall Street

"We got the distinct impression in speaking with WorldCom that it may not be committed to keeping MCI's residential long-distance business. While the company has wisely said at this early stage that it 'will not abandon' those customers, we think it would consider shedding those operations either by spinning them off to shareholders or selling them to another provider if retaining the business turned out to be a drag on growth or valuation. WorldCom's strength has been in serving commercial accounts; absorbing MCI's huge consumer business might prove troublesome and we don't believe Bernie Ebbers, WorldCom's CEO, would be very patient if it didn't look like it was working."

--Argus Research Corp., October 20, 1997

What WorldCom/MCI is Telling Wall Street

- "We do not expect WorldCom to continue serving the mass market in the ways that MCI has traditionally."
(Credit Suisse First Boston Corp)
- "This is a classic case of a company's telling Wall Street one thing and Washington something else. Shareholders think that they (WorldCom/MCI) won't spend a lot of money on the residential market, and Washington expects them to do just that." (Scott Cleland of Legg Mason Precursor Group, quoted in *The New York Times*, March 11, 1998.)

What Wall Street is Saying about the Merger: Reduced Intra-Industry Competition

"Mergers with MCI and Brooks will reduce, on the margin, the level of intra-industry competition in both the U.S. LD (long distance) and local markets via the reduction in the number of major competitors.

On the local side, completion of these two mergers would mean that MCI's Metro unit, Brooks, and WorldCom's MFS unit would no longer compete with each other. We therefore expect that local pricing will feel slightly less pressure and that significant overlapping expenditures (both capital and marketing) will be eliminated."

-- Merrill Lynch and Company, Feb. 1998.